

**Proposed Backstop Financing Structure for New
Generation Development in California**

Workshop Discussion Document

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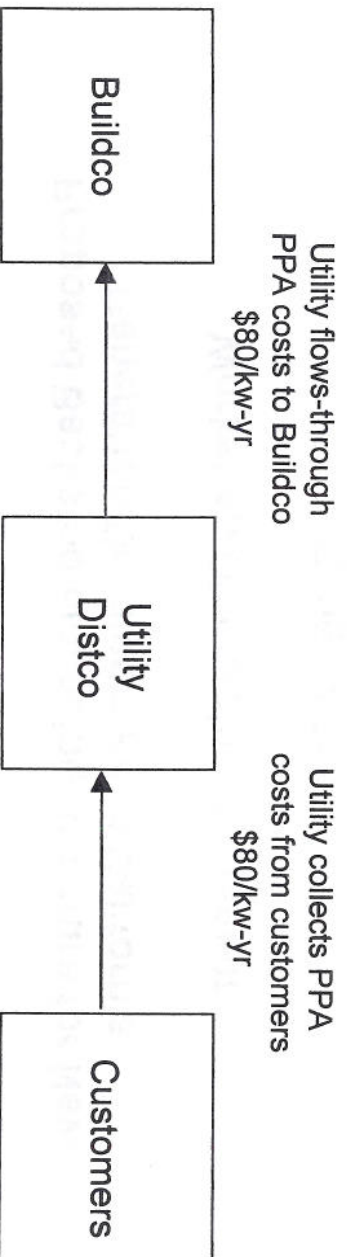
March 14, 2006

Coalition Transition Proposal for Financing New Generation Development

Values are illustrative only

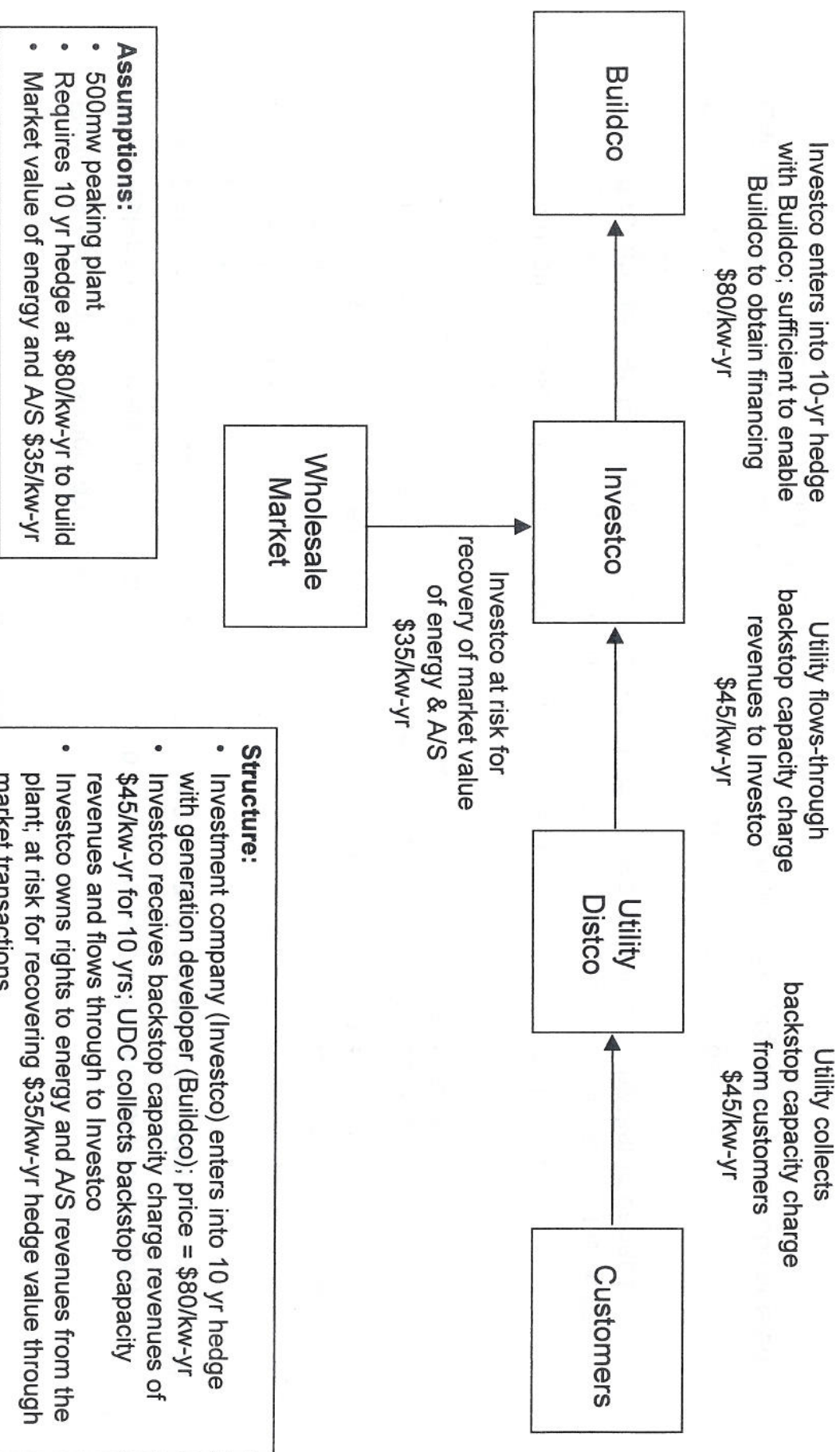
Assumptions:

- 500mw peaking plant
- Requires 10 yr PPA at \$80/kw-yr to build
- Customers receive 500mw of RA, tolling rights to energy and A/S for 10 yrs; allocated proportionally to all bundled and non-bundled customers (same as Coalition proposal)



Alternative Backstop Financing Structure for New Generation Development

Values are illustrative only



Benefits of Proposed Alternative Backstop Financing Structure

- Reduces costs and risks for ratepayers
 - Ratepayers' long-term, fixed obligation is to backstop capacity charge component only
 - Remaining costs of capacity and energy can be optimized through LSEs' competitive market purchases
- Doesn't require reliance on utility balance sheet
- Targets the level of backstop capacity payment based on technology (lower backstop charge for baseload plants since market value of energy covers larger portion of fixed costs)
- Commitment and dispatch of plant is market-based, rather than cost-based (eliminates concerns about regulated assets competing against market-based assets for energy sales)
- Encourages competition on two levels:
 - Competition among Buildco's; puts downward pressure on development costs
 - Competition among Investco's; puts upward pressure on portion of total cost that is borne through competitive market transactions and downward pressure on backstop capacity payments
- Eliminates concerns about utilities serving as backstop providers of new generation
- Can be implemented as an alternative financing structure in the RFO process; can be considered alongside offers based on Coalition's proposed structure